PRINCIPLES FOR ENHANCING PROVINCIAL BENEFITS for the NATURAL RESOURCE SECTOR

An Industry/Government Partnership

Premier's Advisory Council on the Economy and Technology

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Table of Contents

Foreword
1. Context
2. Provincial Objectives
3. Long Term Benefits
4. Short Term Benefits
5. Employment and Training Benefits
6. Special Considerations
7. Implementation Approach

FOREWORD

The Advisory Council on the Economy and Technology (ACET) is pleased to present the Government of Newfoundland and Labrador with strategic considerations for enhancing provincial benefits from natural resource developments. Our natural resources provide significant opportunity that goes well beyond simple resource exploitation, through the development of lasting industries, and exportable skills and technologies.

ACET recognizes the need for industry and government to work together to develop the Province=s natural resources in a way that provides fair returns to resource developers, and full and fair benefits for the people of Newfoundland and Labrador. The Council further recognizes that for sustainable economic activity to occur, the Province must be competitive in terms of benefits policies, skilled workforce, fiscal/tax regimes and regulatory environment.

This document outlines existing and potential deliverables by both government and industry that can lead to an internationally competitive, highly-skilled and cost-effective business environment. ACET believes that Government and industry must strike the right balance in policies, regulation and practices that will maximize industry investment in our Province, and maximize benefits to the people of Newfoundland and Labrador.

The Council calls upon government and industry to adhere to the principles we have outlined so that collectively we can:

(i) increase the attractiveness of future resource developments in the Province;

(ii) grow the provincial economy through the development of more fully integrated industry sectors;

(iii) develop internationally competitive and exportable services and skills; and

(iv) create long-term profitable ventures for those developers willing to commit to sound resource management principles, sustainable development, and long term benefits for the Province.

1. Context

Government should recognize that resource development projects provide a significant opportunity to enhance the overall economic well being of the Province and its residents. This can take many forms including industrial and employment benefits, as well as royalties and taxes.

There are many current and prospective major resource development projects in Newfoundland and Labrador which offer substantial opportunity for both industry and government:

- mining
- oil and gas - offshore and onshore
- hydroelectric

The Council recognizes that jurisdictional factors, particularly in the oil and gas sector, do have an impact on its leverage with industry to demand specific commitments.

Government should recognizes that the greater the potential profitability associated with a particular resource development, the greater is the potential for the resource development to provide higher levels of industrial and employment benefits as well as economic benefits. Government and resource development proponents should jointly identify and reach agreements on the measures and activities necessary to achieve government=s goals while still providing fair returns to resource developers.

While this document focuses on provincial industrial and employment benefits objectives, government should continue to implement policies and programs to assist the establishment of ventures and their ongoing profitability.

2. Provincial Objectives

The industrial benefits policies and procedures to be implemented by the Government of Newfoundland and Labrador should address short and long term industry development that will result in increased local infrastructure, employment, and income, as follows:

In the short term, ensure opportunities for provincially-based firms to supply goods and services to resource development projects.

In the longer term, to enable provincially-based firms to profitably export globally competitive products, services and skills worldwide.

In the short and long term, attract experienced national and international firms pursuing business opportunities from provincial resource development projects to establish permanent operations in the Province.

Provide genuine opportunities for employment and training to residents of the Province.

Provide genuine opportunity for technology transfer and succession to higher technical and managerial positions by residents of the Province.

Support and promote sectoral and geographic strengths and diversity to help create a highly-skilled, efficient and competitive business community.

Support and promote local development and ownership of major infrastructure that will position home grown industry players as international competitors.

Provincial objectives with respect to increased revenues from royalties and taxes should be balanced against industrial and employment benefits objectives and government's need to provide a hospitable and competitive business and investment environment.

3. Long-Term Benefits

In addition to increased government revenues from royalties and taxes, there are three areas where the Council feels that long-term industrial and employment benefits strategy has the ability to impact positively on the provincial economy:

1. Development of primary resources and value-added processing in the Province.

2. Development of a strong and diverse business community to supply products and services to support natural resource industries and their major operators.

3. Development of Newfoundland and Labrador based industries as major exporters of goods and services particularly in those sectors where firms may have natural geographical and strategic advantages to become global competitors.

To achieve success in maximizing benefits to the Province, government and industry must work together cooperatively. The Province should expect natural resource development operators to undertake the following activities:

1. Where a company's normal business operations includes processing of raw materials to a further value-added production stage, that company should establish the further production stage in the Province where it is not prohibitive to do so.

2. Operating companies should expect their major suppliers to establish operations in the Province.

3. Operating companies, together with their major contractors and suppliers, should purchase products and services, on a competitive basis, within the Province and, with

respect to professional and technical services requirements, provide technology transfer assistance to provincially-based firms.

4. Operating companies will assist government and local industry associations in identifying key areas of specialization associated with a particular industry sector to help foster the growth of provincially-based firms in these specialized fields.

4. Short Term Benefits

There are six areas where short-term benefits guidelines also have the potential to impact positively on the provincial economy:

(1) Exploration

Exploration is a key to developing and maintaining sustainable resource based industries. Without significant exploration activities, it is highly unlikely that resource development projects will be identified. Furthermore, it is recognized that the largest portion of industrial and employment benefits are in the development and production stages of resource projects. Accordingly, government should actively promote exploration activities.

Government should recognize, however, that exploration activities are normally undertaken by large international operators, and that the collation, processing and interpretation of exploratory field work is usually undertaken at the main office's international location. Government should never-the-less actively pursue with resource project developers the establishment of such exploratory interpretation capabilities in the Province.

(2) Pre-Development Activities

Government should actively pursue with resource developers the establishment of pre-development engineering functions in the Province for various activities including studies and conceptual engineering, and environmental issues.

(3) Project Management

Resource development projects should be managed from within the Province and there should be significant participation by Newfoundland and Labrador firms and residents in the project management team.

(4) Engineering

Resource project developers should ensure that their major engineering contractor establishes significant joint venture/business alliance with provincially-based engineering firms and that the design engineering work is performed in the Province.

(5) Procurement of Goods and Services

Government should require of resource project developers the timely establishment of core procurement functions, with key decision-making responsibilities, for the resource development project in the Province prior to the finalization of any procurement packages.

To help achieve maximum benefits for the Province, government and industry should work together cooperatively to ensure that:

The requirements for goods and services are communicated on a timely basis to Newfoundland and Labrador firms, industry associations and other relevant parties.

The project developer reviews Newfoundland and Labrador capabilities for the project, in the context of identifying potential supply gaps, and the enhancement of existing suppliers through the formation of appropriate joint ventures and alliances, and establishment of new suppliers in the Province.

The bid packaging, technical specifications, bidding procedures and bid followup should provide provincially-based firms with a genuine opportunity to provide goods and services to the project based on life cycle costing.

As well as technical and commercial considerations, the level and quality of Newfoundland and Labrador benefits should be selection factors in awarding contracts and, where bids are essentially equal on a competitive basis, first choice be given to goods and services provided from Newfoundland and Labrador.

The developer's contractors, subcontractors and major suppliers should also comply with the project developer's procurement policies and procedures and its benefits commitments.

(6) Construction Activities

Newfoundland and Labrador major fabrication yards must be competitive to participate in future major resource development projects.

Resource project developers should make every effort to utilize and enhance existing Newfoundland and Labrador construction and fabrication infrastructure. Such efforts would include working cooperatively with the management of fabrication and construction facilities to ensure complete understanding of the bid requirements and to assist in required technology transfer and enhancement of technical and management skills. Developers should not only provide a full and fair opportunity for provincially-based fabrication and construction facilities to bid, but should invite such facilities to submit bids for this type of work.

5. Employment and Training Benefits

Specific employment benefits policies and procedures related to resource development projects should be implemented by developers and operators as follows:

1. Ensure residents of the Province are afforded a full and fair opportunity and first consideration to obtain employment and related training in all phases of the project.

2. Implement plans and systems that allow for the succession of Newfoundlanders and Labradorians to increasingly higher levels of technical and management

responsibility during the life of the project.

3. Carry out the project development consistent with high standards of health, safety and environmental protection through the use of an appropriately skilled workforce.

To help achieve maximum employment and training benefits for residents of the Province, government and industry should work together cooperatively to:

Establish and maintain effective communication processes and to ensure there is a clear understanding of the scope of all phases of the project.

Provide timely information to educational institutions, interested groups and the public on the project's labour and training requirements, to identify skills shortages, and to develop training programs and models for career development.

Develop and implement policies and procedures to encourage the participation of visible minorities in the project development and operations phases.

Develop employment equity policies and implementation plans that address recruitment, training and advancement of qualified women, particularly in occupations where they have been traditionally under-represented.

Ensure that the developer's contractors, subcontractors and major suppliers also comply with the project developer's employment and training policies, procedures and commitments.

6. Special Considerations

Recognizing the constraints of population size, geographic location, accessibility, availability of local supply, and costs, etc., the Province should endeavour to maximize benefits in the area or region within the Province where the natural resource is located.

As such, resource project developers should be cognizant of these constraints and implement policies and procedures to address these concerns, including:

1. Negotiation and implementation of appropriate Impact Benefits Agreements with Aboriginal groups.

2. Provide specialized training and/or other accommodations to increase opportunities for designated groups, including women and persons with special needs.

7. Benefits Implementation Approach

The implementation for resource development projects, of benefits policies and procedures by government and the acceptance and adherence to such benefits objectives by industry, including major resource developers, should focus on intent and measurement. As such, there should be an expectation that the spirit as well as the letter of the policies be honoured, and there should be a desire to identify measurable outcomes and indicators of economic progress.

To help achieve success in implementing these benefits policy objectives, government and industry should mutually agree to certain reporting and monitoring procedures including:

1. benefits agreements should be drafted for all major resource development projects outlining specific intentions by developers and government pursuant to the foregoing benefits principles and procedures, with appropriate agreed-upon remedies as necessary; and

2. regular reports by the project developer to government in accordance with an agreed reporting and auditing schedule.